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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 001882

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SUBJECT: DAUSTR BHATIA DISCUSSES STRATEGIC ECONOMIC  
DIALOGUE; SECTION 301 PETITIONS WITH VFM YANG JIECHI

Classified By: Classified by Deputy Chief of Mission David S. Sedney.  
Reasons 1.4 (b/d)

Summary

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¶1. (C) Although the Strategic Economic Dialogue (SED) will be an important legacy of the United States-China bilateral relationship, it is essential that the SED produce positive, practical results, Deputy United States Trade Representative Karan Bhatia told Vice Foreign Minister Yang Jiechi on March ¶1. VFM Yang asked the United States to consider four points as planning for the second SED advances: 1) that the SED focus on strategic issues and not be a forum for negotiation; 2) that both sides follow through on commitments made during the first SED; 3) that both sides shape public opinion on the SED's capabilities; and 4) that we cooperate closely to ensure protocol and security arrangements for the SED and prevent "human rights and the Taiwan question" from affecting the talks. Agreeing that the SED should focus on long-term, cross-cutting issues, DUSTR Bhatia said the SED should give impetus to achieving solutions and advancing our bilateral relations. While we both have a responsibility to educate the public about problems in our bilateral economic relations, the public ultimately will judge the SED on the evidence of its success. Recalling two Section 301 petitions on labor conditions in China, DUSTR Bhatia sought Yang's support for a United States proposal to deepen and broaden our labor dialogue. VFM Yang promised to relay the proposal to the appropriate Chinese ministries. End Summary.

¶2. (C) VFM Yang Jiechi told visiting DUSTR Karan Bhatia on March 1 that China is working hard toward the same goal as the United States to make the second Strategic Economic Dialogue (SED) a success. DUSTR Bhatia expressed appreciation for China's efforts and explained to Yang how the United States views the SED within the broader concept of our bilateral relations. He described the SED as a valuable institution that will be considered an important legacy of our bilateral relations, but cautioned that the SED is in a delicate stage because it is so new. Although the United States has been delivering a fair, measured and upbeat picture of our bilateral economic relationship, including highlighting China's extraordinary economic progress over the last 25 years and the last five years in particular, there is great anxiety in the United States about our economic and trade policy for China. It is against this backdrop that the SED's value is being assessed. He stressed the importance of demonstrating that the SED can produce positive, practical results. To this end, he said, the United States has shared with China a set of White Papers including proposed outcomes

that we believe avoid duplicating work best left to multilateral organizations and are consistent with the development goals China mentioned during the first SED.

Yang Presents Four Ideas

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¶ 3. (C) VFM Yang said that he agreed that future generations assessing the state of our bilateral relations will see the wisdom of establishing the SED and its contribution to underpinning stable United States-China relations. He asked the United States to consider the following four points as preparations are finalized for the May meeting:

-- First, he said, discussions in the SED should focus on strategic issues, leaving "specific" matters to relevant sub-dialogues. The SED is not a forum for negotiation. Some MFA officials see the United States White Papers as including a list of negotiating demands. Saying that he understands fully the current political climate in the United States and that he recognizes the SED was not created in a vacuum, VFM Yang said that the SED should focus on cross-cutting, long-term issues. "I do realize that Americans are less patient than Chinese," he added.

-- Second, following through on the results from the first SED is essential to the success of the second SED. China will deliver on its commitments and hopes the United States will do the same. Yang asked the United States to support China's membership in the Inter-American Development Bank, open the United States' tourist market by streamlining the visa issuance process, eliminate obstacles to high-technology imports and lift "erroneous" nonproliferation sanctions on Chinese firms. He expressed appreciation for lifting

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sanctions on Great Wall Airlines.

-- Third, both sides have a responsibility to shape public opinion regarding the SED. Noting the importance of the media in China, Yang said that he nevertheless understands that shaping public opinion will be more difficult for the United States than China. People can cherish the SED, he said, but need to understand that it cannot achieve everything overnight. China will carefully study the United States White Papers, but hopes the United States can drop "unrealistic demands."

-- Fourth, both sides need to cooperate closely to ensure protocol and security arrangements are ready in advance of the SED. During the first SED, Yang noted, the MFA protocol and press departments, which normally only handle arrangements for visiting heads of state, were responsible for the SED. China will be sending an unprecedented number of high-level officials to the United States and is certain that the high-level of importance that China attaches to the SED will be reciprocated by the United States. China hopes that a good atmosphere can be created by preventing issues such as "human rights and the Taiwan question" from distracting from the dialogue. Yang said that he hopes the United States understands the dangerous nature of Chen Shui-bian and will work with China to oppose Chen and his successionists by not sending them any wrong signals. He asked that the United States refrain from signing trade agreements with Taiwan and prevent "some in the United States" from affecting the SED. China has taken note of and appreciates statements by United States officials explaining how the bilateral economic relationship is bringing benefits to the United States. China will take steps to increase imports of U.S. goods and, with the permission of the United States government, will increase investment in the United States. China hopes the United States will relax or at least not tighten its export controls, said Yang.

DUSTR Bhatia's Response

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¶4. (C) Responding to Yang's points, DUSTR Bhatia said that the United States agrees that the SED should focus on long-term, cross-cutting issues. Secretary Paulson has made this point repeatedly. Our hope is that the SED promotes more effective sub-dialogues and gives impetus to achieving solutions regardless of the forum in which the issues are discussed. What is essential, he stressed, is that progress is made to advance our bilateral relations. The United States is focused on ensuring that we meet our commitments from the first SED and expects the same of China. The United States agrees that we both have a responsibility to educate the public about problems in our bilateral economic relations and to explain how we intend to fix them. There is increasing concern in the United States as to whether China remains on a steady path of reform, particularly whether China is taking steps to increase the growth of domestic consumption and establish a social safety net. He told VFM Yang that the United States will try to raise awareness of the benefits resulting from our bilateral economic relations, but stressed the importance of being able to show that our concerns are being addressed. The SED is helpful in this regard. Ultimately, DUSTR Bhatia stated, the public will judge the SED on the evidence of its success. As for protocol and security, he promised to share China's concerns with the State Department and other relevant agencies.

¶5. (C) VFM Yang assured DUSTR Bhatia of China's commitment to reform and innovation. Expansion of domestic consumption is necessary if China intends to sustain economic growth, he said. That China has climbed from the United States, 15th to 4th largest export market suggests that Chinese domestic consumption is increasing. Developing a social safety net is a long-term Chinese goal, although China is more advanced in this regard compared to other countries in a similar state of development. Yang asked that the United States do more to improve its domestic economy and consumption patterns to ensure the steady growth of our two economies.

#### Enhanced Labor Dialogue

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¶6. (C) Turning to the subject of labor, DUSTR Bhatia reminded VFM Yang that the United States rejected previously and then again in 2006 two Section 301 petitions on labor conditions

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in China filed by the AFL-CIO. We rejected these complaints based on the rationale that the United States has been engaged in a long-term, constructive dialogue with China on this issue. An important factor that enabled the United States to make this decision, he said, was a letter received from the Chinese Embassy in Washington promising that China will strengthen its labor practices and engage in dialogue with the United States. DUSTR Bhatia said that the United States believes that by enhancing dialogue with China on this subject we can reduce tensions and increase understanding. He asked VFM Yang to support deepening and broadening our labor dialogue and to assist AUSTR Tim Stratford to meet with relevant officials at the Ministry of Labor and Social Security (MLSS) to discuss this proposal further.

¶7. (C) Expressing China's appreciation for United States' efforts with regard to the Section 301 petitions, VFM Yang promised to relay DUSTR Bhatia's proposal to the appropriate Chinese ministries and would convey as well Stratford's meeting request to the MLSS. Recalling past discussions between senior labor officials from the United States and China, Yang said that China will continue to take steps to improve its labor conditions. Although Chinese labor conditions are not perfect, they are good compared with other countries in a comparable state of development, he claimed.

¶8. (C) Comment. As the date for the SEDII meeting approaches, we expect Chinese concerns about protocol preparations for the visit will increase markedly.

